IDAHO OUTLOOK

NEWS OF IDAHO'S ECONOMY AND BUDGET

STATE OF IDAHO | DIVISION OF FINANCIAL MANAGEMENT | JULY 2001 VOLUME XXII NO. 1

The recent set backs of the "new economy" has more than just Bay Area BMW dealers wringing their hands. While some regard the new economy's collapse as just comeuppance for instant internet millionaires, it has many economists worried. This is because the new economy's success is directly tied to the computer industry, and the enormous amount of investing in information technology has improved overall productivity in the U.S. The faster productivity growth caused many economists to revise their expectations for the economy. Where reasonable estimates of potential real GDP growth once hovered in the 2.5% to 3.0%, several years of stronger growth propelled the economy's potential growth rate into 3.5% to 4.0% range. This promised to raise our standard of living faster.

The recent increase in productivity is not trivial; it rose 2.8% between 1995 and 2000—almost twice the rate of the preceding two decades. Oliner and Sichel estimate that labor productivity was 1.04 points faster in the late 1990s than in the early 1990s. They conclude the widespread use of high-tech capital and increased efficiency of producing high-tech equipment accounted for about 0.8 percentage points of this increase.

This increase should not come as a surprise. Real investment in computer equipment increased an astounding 35.9% per year from 1990 to 2000. Unfortunately, real investment in computer equipment slowed noticeably at the end of 2000. It actually declined for the first time in a decade in the first quarter of this year. Coincidently, U.S. nonfarm business productivity also dropped in that same quarter.

Does this mark the end of the productivity miracle? This is hard to say. First, the recent decline in productivity is probably cyclical instead of structural. The economy is no doubt slowing. Even as output drops, companies are hesitant to let go of employees. (This is especially true in high-tech companies where the pool of specialized talent is limited.) Since productivity is simply output per unit of labor, this situation causes productivity to decline. The question remains whether productivity growth will recover from its recent slide or is it returning to the doldrums of the 1970s and 1980s.

The safe answer is that productivity will recover but not match the pace of the late 1990s. Much to the chagrin of the Luddites, computers, like electricity, refrigeration, and countless other inventions, are here to stay. DRI-WEFA expects real investment in computer equipment to recover. This will help productivity grow at about a 2.6% annual pace through 2004. The real GDP potential growth rate over this same period is around 3.5% per year.

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Sales tax collections were $0.7 million (1.2 percent) higher than expected in June. This is only the fourth month in FY 2001 that sales tax exceeded expectations, and is also the best month of the entire fiscal year for sales tax collections. While a welcome change from the chronic under performance of the preceding eight months, June is most likely an anomaly in the larger picture. The overall result for sales tax is that it fell $10.7 million (1.6 percent) below the forecast for the fiscal year.

Product taxes were $0.1 million higher than expected in June and finished the fiscal year ahead by the same amount.

Miscellaneous revenue was $11.2 million higher than expected for the month of June, and finished the fiscal year $24.1 million higher than expected. This strong finish for the miscellaneous category was unexpected, and is due to several components that exceeded their forecasts. The estate tax remains the "star" performer in the miscellaneous realm, coming in $1.4 million higher than expected in June and $8.8 million higher than expected for the fiscal year. Insurance premium tax collections were $5.3 million higher than expected in June, and finished the fiscal year $7.3 million higher than expected. Unclaimed property was $2.9 million above its target for June, for a fiscal year excess of $4.8 million. Interest earnings also surged in June by $2.4 million, bringing the fiscal year excess to $3.9 million.

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General Fund Update

As of June 30, 2001

	$ Millions			
	FY00	FY01 Executive Estimates[1]		FY01
Revenue Source	Actual	Dec. 99	Dec. 00	Actual
Individual Income Tax	960.2	1022.1	1024.2	1024.0
Corporate Income Tax	124.9	136.4	170.0	141.5
Sales Tax	627.5	665.7	658.0	647.3
Product Taxes[2]	16.0	20.6	20.6	20.7
Miscellaneous	92.5	106.6	127.0	151.1
TOTAL GENERAL FUND[3]	**1821.0**	**1951.4**	**1999.8**	**1984.6**

1 Executive estimate as adjusted for 2001 legilative action
2 Product Taxes include beer, wine, liquor, tobacco and cigarette taxes
3 May not total due to rounding

General Fund revenue collections for fiscal year 2001 are now "in the bank." The year finished a mere $15.2 million (0.75 percent) below the forecast prepared last December. Overall, June revenue was off target by a relatively modest $7.7 million, but the results varied widely by revenue category. The individual income tax and miscellaneous revenues were above expectations in June, sales tax and product taxes were essentially on target, and the corporate income tax was substantially below its target for June.

Individual income tax collections rebounded in June on a combination of strong filing payments ($1.8 million higher than expected) and light refunds ($6.8 million lower than expected). These two sources of strength in June were partially offset by continued weakness in withholding collections. Withholding receipts were $2.6 million lower than expected in June, and finished the fiscal year $19.1 million lower than expected. For the full fiscal year the individual income tax came in just $0.2 million lower than expected, with higher filing payments and lower refunds offsetting the aforementioned withholding weakness.

Corporate income tax collections were $26.0 million lower than expected in June, a disappointing performance that brought the fiscal year results $28.5 million (16.8 percent) below the forecasted amount. Filing collections accounted for the bulk of June's weakness, coming in $20.7 million lower than expected. Corporate estimated payments were $6.3 million lower than expected for June, while refunds paid were $0.7 million lower than expected. This sudden weakness in the corporate income tax is most likely due to a combination of worse-than-expected overall economic performance at the national level, and the sharp downturn in the technology sector that has hit Idaho firms fairly hard.

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